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. EDITORIAL .

Prices and Wages Ceilings

The information that the Government proposed to fix a ceiling on both wages and prices has been received with mixed feelings throughout the country but generally the reception has been good. Business generally has re-acted favorably but would like to know exactly how ceilings can be maintained. Labor, or at least organized labor, holds that this is no time to place a ceiling on wages and makes the claim that many wages are far too low. Labor seems to forget that while this may be true in some instances, wages cannot be increased without a further heavy rise in the cost of living which would make necessary another jump in wages until the whole thing reached the inflation point.

The big trouble seems to be that the Order-in-Council P.C. 7440 was only intended to apply originally to war industries and that this fact gave such industries a head start in the race for skilled and unskilled labor with non-war industries. So too did the Order-in-Council which endeavored to prevent workers moving from one war industry to another and the result then became a race to see which could offer most to labor. In other words, both war and non-war industries came into real competition with each other for the use of labor with the inevitable result that wages increased rapidly in some industries and of course up went the cost of living.

If the Government can fix a ceiling on both prices and wages and by so doing forestall inflation, it will have accomplished something worthwhile and because we do not see just how it is going to accomplish this is no reason for saying it can't be done. Undoubtedly the Government has had expert advice on this matter and, bearing in mind just what is at stake we should be willing to bend every effort to assist in this matter in order that the whole scheme will not fail for lack of a fair trial. The scheme is a big one, it is something that has not been tried on such a scale before and if it can be done we should do it.

Labor Troubles

Right now there are few, if any, strikes of any size in this country although it is true that there is every indication of one in the various Kirkland Lake Gold Mines. In this case it is not a matter of higher wages but of Union recognition and the miners are apparently determined that the union of their choice must be recognized. Now there is more in it than

just that. The Mine Owners claim that they cannot run the mines with this particular union in the driver's seat and it is stated in many quarters that the C.I.O. is dominated from the U.S.A. and that it is not concerned with how our war effort is affected. In this instance, it is not strictly a war industry that is concerned, or is it? but the fact remains that very many people would be far better inclined not only to tolerate unionism but to work with it if unionism, or shall we say the C.I.O., gave evidence of having any responsibilities or at least of recognizing them. While on this subject we cannot help but think that a lot of labor troubles are magnified because of the autocratic manner adopted toward workers by some employers. It amounts to that even if the employers do not know in many cases just what is going on. During the past few weeks we have seen evidence galore of the many silly little instances of the manner in which labor has been treated like dirt. In which labor has been made to feel inferior. If there is any truth in the statement that we must make democracy work, that we must institute a new order BEFORE this war is over, not after, then some people in high places had better change their ideas. True, labor must be made to realize that some of its liberties will have to be shelved for the duration in order that we may win this war but a little courtesy toward labor would not go amiss in the meantime and would do much to placate those who feel that they are just to be barely tolerated. This is no time, even if there ever was one, when labor should be made to feel inferior. Labor and more particularly organized labor must be made to feel its responsibilities but there are others who have a responsibility toward labor and they must be made to feel that also.

Across the Secretary's Desk

Since the last issue of Cost and Management, three letters of real interest have crossed my desk.

First of all there was a letter from Tom McCreath, the newly appointed Secretary of the Edmonton Chapter.

After giving a list of the new officers and directors, he says, in part: "We had our first meeting to-night, that is with the new crew in charge, and everything went off very well. There was a record attendance and six persons asked for application forms which left those in charge with a feeling of satisfaction." This is indeed cheering news and this year looks like a banner year from the farthest north of our chapters.

Another letter came from Vancouver, where the boys have arranged a series of lectures with Professor Morrow of the University of British Columbia in charge. These lectures will be on Cost Accounting and will form the regular meetings of the chapter.

The lectures will commence around the first of the year and will do much to promote the study of Cost Accounting on the Pacific Coast.

Nice going, boys!

A third letter came from a member of one of our Student Sections and he says, in part: "It was certainly a good day for me when you organized

these Student Sections, I have learned plenty already and mean to learn a lot more."

Again there was a letter from the Secretary of the Windsor Student Section informing me of the large attendance at their last meeting and one could go on for a long time.

Perhaps some of you will be inclined to say that I should give details of other letters not quite so complimentary.

As a matter of fact, this type of communication is not very often received which is proof that our Society is running along very nicely.

In this issue we publish the names of fifty-one new members, a record for all time, and we can keep this up indefinitely if we but receive the co-operation of each member. Just think what a difference it would make if every present member made up his or her mind to introduce one new member to the Society.

It can be done but you are the boys to do it; I can't help you. Frankly, however, I am quite pleased with the manner in which the membership is increasing. Not satisfied, but still quite pleased.

And, by the way, I still like to receive comments from members, so why not occasionally drop me a line; it will certainly be appreciated.

R. D.

Literature Received

Local Government Cost Accounting.

Australian Accountant, September.

A most complete article of interest generally to those engaged in local government work.

Standards—Job Order Costing.

Australian Accountant, September.

Deals with the use of standards in Job Order Costing. A condensed but informative article on this subject.

Controlling the Costs of a Credit and Collection Department.

N.A.C.A., September 15.

Procedure for Installment Notes Receivable.

N.A.C.A., September 15.

The first of these articles deals with methods of measuring the effectiveness of the Credit and Collection Department and controlling the cost of credits and collections. The second describes a record-breaking and accounting routine for handling installment notes receivable.

Budget Capital Expenditures for an Oil Company.

N.A.C.A., October 15.

A Case Study of Accounting for Fixed Assets.

N.A.C.A., October 15.

These two articles deal with two aspects of the fixed asset problem—the control of capital exptnditures and detailed accounting for fixed assets and expenditures.

Amortization and Defense Certificates.
N.A.C.A., November 1.

Excess Profits as a Factor in Cost and Selling Prices.
N.A.C.A., November 1.

While these articles deal of course with conditions in the U.S.A., they are nevertheless very interesting to all accountants.

The Inventory Problem of a Chain Drug Company.
Journal of Accountancy, October.

Describes in detail the practical problems which must be solved in taking an inventory of over a million items.

Government Contracts and the Control of Costs in Great Britain.
Canadian Chartered Accountant, November.

A Summary of the Fourth Report of the Select Committee on National Expenditure in Great Britain for the Session 1940-41.

Standardized Cost Accounting.
The Accountant, October 18.

A short but very instructive article on a subject of real interest.

New Members

Montreal Chapter.

R. Beuchamp, Lachine, Que.
D. Beauchamp, c/o J. Weinstein, C.P.A., Montreal, Que.
M. Singer, Distillers Corpn. Ltd., Montreal, Que.
F. Rheault, Crawley & McCracken Co., Montreal, Que.
C. J. Williams, City Hall, Westmount, Que.
A. F. Pierce, City Hall, Westmount, Que.
A. W. Worthington, Stevenson & Kellogg Ltd., Montreal, Que.
L. S. Brunet, St. Luc Hospital, Montreal, Que.
R. L. Brawn, Montreal Star Co. Ltd., Montreal, Que.
Jas. Heughan, Farquhar, Robertson Ltd., Montreal, Que.
J. L. Leman, Stevson & Kellogg Ltd., Montreal, Que.
Frank Forbes, Canadian Marconi Co. Ltd., Montreal, Que.
Pierre Amyot, Dominion Corset Co. Ltd., Quebec, P.Q.
E. E. Jackson, Canadian Fairbonks, Morse Co. Ltd., Montreal, Que.
J. H. East, C.G.A., Sales Tax Division, Dept. National Revenue, Montreal, Que.

Hamilton Chapter.

H. K. Gardner, The Gair Co. of Canada Ltd., Hamilton.
H. B. Hector, Canadian Canners Ltd., Hamilton.
S. Butler, Wallace Barnes & Co., Ltd., Hamilton.
Miss C. Caunt, Otis-Fensom Elevator Co. Ltd., Hamilton.
D. Bouskill, Lake Shore Roses Ltd., Grimsby, Ont.
R. A. Mullan, Waterous Limited, Brantford.
Stanley Kent, Otis-Fensom Elevator Co. Ltd.

Niagara Chapter.

J. McClure, Atlas Steels Ltd., Welland.

Kitchener Chapter.

A. H. Morton, Stauffer-Dobbie & Co. Ltd., Galt.

G. E. Tuffin, Stauffer-Dobbie & Co. Ltd., Galt.
C. V. Hall, G. L. Griffith & Sons Ltd., Stratford.
R. A. McLean, Waterloo Mfg. Co. Ltd., Waterloo.
W. H. Smith, Snyder's Limited, Waterloo.

London Chapter.
R. H. Pope, City of London, London.
N. C. Loney, Ingersoll Auto Electric Co., Ingersoll.

Windsor Chapter.
H. T. Henderson, Chrysler Corpn. of Canada Ltd., Windsor.
G. Morgan, Jr., Hiram Walker & Sons Ltd., Walkerville.
Donald A. Stephens, Hiram Walker & Sons Ltd., Walkerville.
L. E. Reed-Lewis, Hiram Walker & Sons Ltd., Walkerville.

Ottawa Chapter.
F. H. Page, The Ottawa Journal, Ottawa.
R. Huxtable, C.A., Ottawa Light, Heat & Power Co., Ottawa.
F. Ballantine, Ottawa Light, Heat & Power Co., Ottawa.
W. A. Bruce, Ottawa Light, Heat & Power Co., Ottawa.

Non-Resident.
K. M. Esdale, Pamour Porcupine Mines Ltd., Pamour, Ont.

Edmonton Chapter.
Miss M. Fleming, Wilson Freightways, Edmonton.

Toronto Chapter.
G. G. Hurlburt, Drug Trading Co. Ltd., Toronto.
C. W. Ray, Massey-Harris Co. Ltd., Toronto.
A. Sanford, Massey-Harris Co. Ltd., Toronto.
N. Peterson, Research Enterprises Ltd., Leaside, Ont.
N. B. Mathewson, Presto-o-Lite Storage Battery Co. Ltd., Toronto.
L. B. Bonham, Goodyear Tire & Rubber Co. Ltd., New Toronto.
H. E. Green, Ontario Model Aircraft Co. Ltd., Toronto.
B. M. Smith, Massey-Harris Co. Ltd., Toronto.
G. Carroll, Massey-Harris Co. Ltd., Toronto.
F. R. Stephen, Small Arms Ltd., Long Branch, Ont.

Chapter Notes

The following notes received from our Montreal Chapter of The Cost and Management Institute, arrived too late for publication in last month's issue but we nevertheless feel that they should be published, and so we insert them in the December issue. Ed.

NOTES OF THE COST AND MANAGEMENT INSTITUTE

On the evening of Friday, October 3rd, 1941, the Rose Room of the Windsor Hotel in Montreal truly reflected the air of general optimism and enthusiasm which was the key-note of the first meeting and opening dinner of the Cost and Management Institute. For those to whom the Cost and Management Institute is unknown we would here say a word of explanation. The members of the Montreal Chapter, after much thought and work, finally saw the culmination of their plans when the Legislature of the

Province of Quebec granted them a charter as a professional body under the name of the Cost and Management Institute with power to grant a degree "Licentiate of the Cost of Management Institute" (L.C.M.I.) to candidates passing its prescribed examinations. In other words, the Montreal Chapter is now the Institute and all members of the Institute are still, through ailiation, members of the Canadian Society of Cost Accountants and Industrial Engineers. Nevertheless, like a man who has been elevated to the peerage and changes his title but still retains the same personality, we of the Institute are still at heart the Montreal Chapter.

Our President, Paul Kellogg, keenly aware of the import of the occasion, spoke with enthusiasm of the actiivties, objects and ideals of the Institute. He then introduced the head-table guests, the majority of whom were Presidents of business societies which had objects similar to those of the Institute in their own fields. Lorenzo Belanger, who needs no introduction to the readers of this column, in his "Souhaits", spoken in the cadence of his "langue maternelle", told what the Institute was and what were its aims.

R. E. Heartz received an enthusiastic demonstration of esteem from his former colleagues of Montreal Chapter when he stood up to introduce the Guest of Honour, Mr. H. R. MacMillan, President, Wartime Merchant Shipping Ltd. Mr. MacMillan spoke with authority on pre-war, present and future shipbuilding in Canada, the United States of America, and England. It needed someone speaking like Mr. MacMillan to make us realize the important part of our Canadian war effort undertaken by our shipbuilding industry.

Our Guest of Honour was thanked on behalf of the Institute by L. N. Buzzell, a Past President of Montreal Chapter. We would be lax in reporting the events of the opening dinner if we failed to mention the wish expressed by many that "Dick" Heartz be with us again as a member of the Institute, and that "Leslie" Buzzell could somehow or somewhere find someone to take over part of his job so that he might be with his old conferees more frequently.

And so, a new day is born — a new season has begun. We have a programme devoted to a series of cost meetings and a series of management meetings running alternately. What could be more fitting for a body bearing our name? To our fellow members in the Canadian Society of Cost Accountants and Industrial Engineers we of the Cost and Management Institute send sincere and hearty greetings.

The chapel-like atmosphere brought forth the feeling of being in a room grown old with its own perpetual youth. A room wherein could be almost heard the whispering echo of an eventide hymn of a generation past. A room that time may have robbed of the glisten of new varnish but still had no power over the anointed fabric of its tapestried walls. Such a room is the dining-room of the Faculty Club of McGill University wherein was held the first lecture meeting of the Cost and Management Institute, and where, on the evening of Friday, October 17th, 1941, we heard Mr. H. M. Hetherington, an old and true friend from Toronto, discuss the "Control of Operating Costs by Budget" in a way that Torontonians, could they but have heard, might well feel proud of.

Bringing greetings from members in Toronto, and explaining that it was time for someone to repay the visits of Paul Kellogg and Don Patton, our Guest Speaker said "You can't bring back the past, but, you can control the future — by budgeting". No theoretical talk was this but rather a clear outline of the budgetary problems and their solutions as met with in the Viceroy Manufacturing Company, Limited, Toronto, Ontario. Mr. Hetherington spoke of the variance from the basic budget figures, comparing what the variance is actually found to be and what the variance was estimated to be. We also compared the variance between what we estimated our Guest Speaker would be and what our Guest Speaker actually was, and, unlike most executives when making budget comparisons, the members of the Cost and Management Institute were most agreeably surprised. We feel that until Mr. Hetherington has been persuaded to write down his words for reproduction in Cost and Management our efficient Secretary-Manager (we are speaking of Dick Dawson) will not have lived up to his reputation.

At this meeting our worthy President, Paul Kellogg, inaugurated a novel method of assuring that each one knew his neighbour. The method, following most Kelloggian precepts, worked like a well-oiled machine, somewhat as follows: During the dinner President Paul Kellogg announced that in fifteen minutes he would ask everyone to introduce either the person on their left or the person on their right. Some fifteen minutes later the question was asked and the only one attending the dinner-lecture who failed was found to be sitting at the end of the table with only the wall as his left-side neighbour.

We also inaugurated at this meeting a ten minute talk on Industrial Legislation. Mr. L. E. Belanger, son of Lorenzo Belanger, who also fathered our society, outlined all the phases of Industrial Legislation which would be dealt with at the following meetings during our programme season. No one who heard this outline could afford to miss any of the series of talks on the subject.

We had a jolly evening, an instructive evening, the kind of an evening we all look forward to having again. We left with an even keener respect for the Vice-President of our brethren in Ontario.

TORONTO CHAPTER

The Joint Meeting between Toronto and Hamilton Chapters, held at the Eaton's Round Room on the evening of November 12th, was indeed a most enjoyable affair. One hundred and twenty-seven members sat down to dinner after a half-hour get-together which was apparently much enjoyed. Following the dinner the Chapter (we believe Len Brooks was largely responsible) put on a Floor Show which would be hard to match and we doubt will be exceeded by any Chapter. Some of the Hamilton members were still trying to figure how the magician made and lit his numerous cigarettes out of thin air when the bus pulled into Hamilton at exactly 12.30 a.m. Harold Wright, the very popular President of the Society of Industial and Cost Accountants of Ontario, presented degree certificates to a number of Toronto and Hamilton members and did it in grand style. His remarks prior to the presentation we believe were of such importance that we re-produce them on another page and we are of

the opinion that every member should read them. Mr. Ray D. Kinsella of the Eastman Kodak Company of Toronto was the speaker of the evening and was introduced to the gathering by Jim Spence. Ray spoke on "The Use of Standards as a Means of Control" and his talk was, to say the least, extremely interesting. His numerous sallies into "alleys" were very amusing and his talk was thoroughly enjoyed. Altogether it was a grand evening and one we wouldn't have missed for plenty. The two Chapters get together in Hamilton again on the evening of December 10th, when the Hamilton Chapter promises a topnotch speaker.

HAMILTON CHAPTER

The late October meeting of the Hamilton Chapter saw about seventy-five present to hear Allan J. Mouncey, an old member and friend of the Chapter, speak on "Modern Trends in Cost Accounting." The talk was not only interesting but it was most illuminating and those present obtained plenty from the talk and the long discussion which followed. Thirty-six members of the Chapter journeyed to Toronto for the joint meeting on November 12th and had a grand time. Those who "meant" to go, but didn't, certainly missed a treat and will probably never cease to regret it.

NIAGARA CHAPTER

At the next meeting of the Niagara Chapter Student Section, to be held on Wednesday, December 3rd, at 7.30 p.m., in the offices of the Atlas Steels Ltd., Welland, officers for the present season will be elected.

The Cost Approach to Inventories

By WILLIAM A. PATON

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Any broad analysis of inventories through the avenue of cost measurement and assignment brings to light three main questions. First, what costs attach to the physical movement of tangible goods? That is, what are the limits of the area of charges which may reasonably be funneled through the inventory? Second, what is the order or pattern of the flow of tangible goods, with the accompanying process of cost accumulation and attachment? Third, when should costs which were originally associated with particular physical units, or aggregates of units, be absorbed as operating charges (or losses) prior to the final disposition of such physical units or aggregates?

The first of these problems is as broad as the field of cost accounting and, as might be expected, practice is notably divergent at this point. At one extreme is the view that only the net invoice cost of merchandise or materials, plus the direct costs of production in the case of conversion or manufacturing, are inventoriable. At the other extreme is the broad interpretation of operating charges, which considers virtually all costs necessarily incurred in the activity of the enterprise as attaching—like barnacles or other obstacles if not as facilitating agents—to the stream of tangible goods flowing through the business, from the raw-material stage to that of finished product ready for consignment to customers. From this point of view all classes of burden or overhead costs, including so-called "general" and "administrative" charges, are factors in the measurement of the cost of inventories at any time that activity is viewed as momentarily arrested; the president's salary, for example, is no less a bona fide cost of production, and no less inventoriable, than the wages of a workman operating a lathe in the plant. Those who take this position, indeed, do not find it difficult to conceive of selling or distribution costs as subject to accumulation and assignment—in the form of special deferred charges if not as outright inventories—to periodic aggregates of goods severed from the business and delivered to customers. Between these two extremes is room for almost infinite variation of conception and procedure.

With the development of cost accounting in recent decades there has been a noticeable leaning toward the broad interpretation of costs. It is coming to be recognized that direct physical association—"what the eye can see and the hand follow"—has no peculiar force or validity in the process of cost accumulation and assignment as compared with less immediate and obvious relationships. We are beginning to realize that accounting is concerned primarily with the economic rather than the physical aspects of business activity, and that any and every cost factor which is economically necessary to the result—which must be incurred if activity is to continue—is a valid and significant element in the total cost accumulation and hence may properly be taken into account in the measurement of the

cost of inventory at any particular moment. This development, of course, has been most marked in the general field of manufacturing and the area of costs known as manufacturing overhead, but it has also made some headway in trading and in other lines. Time was when the merchant generally viewed freight-in as an immediate operating expense, with no recognition of the relation of this charge to periodic inventory and cost of sales. Nowadays it is standard practice—in the larger stores, at any time—to include transportation costs in the total cost of goods acquired, and occasionally one encounters concerns which make a serious effort to trace the application of the costs of receiving, storing, and other functions which must be undertaken prior to the point of actual sale and delivery.

I find myself very much in sympathy with the interpretation of the stream of cost as a broad area of relatively homogenous charges, and believe that this is the way of significant accounting—accounting which accords with economic realities. To me the traditional contrasting of "cost of goods sold" on the one hand, and "operating expenses" on the other, has been very unfortunate in that it has deterred the development of valid bases and procedures for the measurement of periodic income. I would like to suggest that at the present time it is especially important that accountants revise their conceptions and methods in this connection. We seem to be entering a period in which the movement of selling prices will be restricted and limited in considerable degree to such changes as can be justified by cost measurements, and in such a time a narrow, technical interpretation of cost—with the accompanying tendency toward a broad conception of losses as opposed to valid costs—will be just as unsound for practical purposes as it is from the standpoint of theory.

There is no intention to suggest here that business concerns should actually adopt the extreme view that every particle of cost incurred—including all manner of office and selling costs—is inventoriable. Costs which are incurred at the precise point of revenue recognition, or later, are clearly assignable to expenses, in full, as incurred or accrued. Moreover, in most businesses there are some costs arising prior to the moment of revenue, acknowledgment for which it is so difficult to develop reasonable means of association with the flow of tangible goods, either in units or masses, as to make it impracticable to attempt periodic assignment, to say nothing of more specific tracing. There will always be a fringe of charges which will be treated as expense in the period in which incurred, regardless of underlying economic relationships.

Before leaving this first phase of the subject I want to emphasize one aspect: the amount of the periodic inventory may be greatly affected by the general policy adopted with regard to the kinds or classes of costs considered to be inventoriable; the committee on accounting procedure and accountants generally will do well to keep this fact in mind in dealing with those phases of the inventory problem which have been most actively discussed in recent years. To spar endlessly over pricing alternatives which involve, say, a 10 per cent. variation in total, and entirely ignore an area of policy which may easily mean a variation of 50 per cent. in the final determination, smacks of the lack of sense of proportion of which auditors have often been accused.

With the second question referred to at the outset—What is the pat-

tern or order of the flow of tangible goods through the representative enterprise?—I will deal very briefly, especially as I have expressed myself at some length on this question in the columns of The Journal of Accountancy and elsewhere. I will content myself with calling attention to what seem to me the primary considerations. First, it is quite obvious that the tracing of costs in most cases cannot be so intimate and detailed as to make possible a procedure of specific identification—the clear-cut tracing of each tangible unit coupled with the specific association therewith of every single item of cost incurred. This would be the ideal procedure, as I see it, but it is obviously impracticable, if not downright impossible, in most cases.

It should perhaps be noted that there are those who challenge the assumption that specific identification, even where possible, is the preferred procedure, and such position is not without justification. In the case of securities, for example, it has been suggested that the cost of shares sold should always be measured by a cross section of the pool of cost attaching to the total of shares of the particular kind at the moment of sale; that management should not be permitted to pick and choose among the specific costs of component batches of the total holding even where this may be done precisely and without arbitrary assumption. Without attempting to pass judgment on this particular example, it is my conclusion that, in general, management does have the right to select the units sold from a mass of like things, and that if the particular costs of the units selected are available, such costs become the costs of the revenues realized from the particular sales. I doubt if the courts (if they continue in existence and continue to exercise some significant function) will ever take a contrary position. Suppose, for example, that a concern owns 100,000 bushels of wheat stored at Kansas City and 100,000 bushels of precisely the same grade stored at Minneapolis. The concern now sells 20,000 bushels. Under the circumstances shipment may be made from either stock as far as the customer cares. To save transportation charges or for some less important reason or for no reason at all the management decides to ship from Kansas City elevators. What is the cost of the wheat sold? Is it an appropriate slice of the total cost of the Kansas City stock or some kind of average of the Kansas City and Minneapolis stocks combined? From the standpoint of physical reality it seems clear that the cost should be drawn from the Kansas City stores records, and certainly it is more convenient to determine cost in this way. Imagine a company which has, say, fifty stocks of wheat of the same grade scattered around the country, with fifty distinct records of cost, attempting to use a cross section of the cost of all stocks every time a shipment is made from a particular location! Of course this could be done with respect to a summarizing control record, perhaps without too much trouble, but the procedure clearly could not be followed on the underlying fifty records without completely destroying their usefulness.

Assuming specific identification is not possible or feasible, it is necessary to develop a procedure based on an assumed pattern or order of flow. There are, as is well known, at least three main alternatives: (1) the procession of first-in, first-out interpretation; (2) the pool, cross-section, or average interpretation; (3) the by-pass, or last-in, first-out assumption.

All of these have their proponents, and there has been considerable discussion of relative advantages and disadvantages, merits and defects. Here it is sufficient—as I stated before going oc on a lengthy aside"to mention the underlying criteria. First, and above all, any assumption adopted should not be unduly out of line with the ascertainable, unquestioned physical facts. That is, it is dangerous in accounting to wander very far from objective, determinable data. Economic flow may not jibe with physical flow from the standpoint of all possible theoretic conceptions, but the burden of proof should fall very heavily on those who insist on the adoption of any accounting procedure which can be demonstrated to be fundamentally at odds with the data of physical inspection and experience, the data of competent engineering. Second, any procedure employed should be orderly, systematic, as opposed to hit-or-miss, capricious, varying procedure. Third, the policy decided upon should not be such as to lead to unduly expensive, complex, and impracticable accounting routine. Fourth, the policy should produce results with respect to financial statements which commend themselves to intelligent, experienced persons as reasonable, significant, meaningful, rather than as random, fantastic, useless.

I turn now to the third question raised at the outset: When should costs which were originally associated with particular physical units, or aggregates of units, be absorbed as operating charges (or losses) prior to the final disposition of such physical units or aggregates? This is the essential question with which the American Institute of Accountants committee on accounting procedure has thus far been pre-occupied in its contemplation of the inventory problem, and it is an extremely interesting and important question, even though some might argue that it can hardly be treated as the heart of such problem.

As I see it, the committee's decision of this question to date has been somewhat hampered by giving undue prominence to the "cost-or-market" rule. The committee has avowed its allegiance, fundamentally, to the cost approach, but the emphasis on this approach has been lost in some degree by the attempt to qualify the stand taken by the direct application thereto of the conventional phrase "cost or market." If this very ambiguous phrase were abandoned or relegated to a definitely subordinate status, the committee would, I believe, make rapid progress toward conclusions capable of convincing statement to the profession.

In dealing with this question of premature cost absorption, a general attitude toward the function of accounting must first be adopted. It seems to me that the function of accounting, particularly in relation to published statements of income and financial condition, does not include the bolstering of the showing of future periods. That is, the assignment of accumulated costs at the end of the period to inventory on the one hand and cost of sales on the other should be primarily for the purpose of showing what has happened to date, as accurately and clearly as may be; the major objective is not that of making sure that the income statement of the following period will show a "normal" profit, or any profit, or no loss. If there is distortion of purpose at this point, if financial accounts are used to bring to pass statistically what is desired actually for the future, regardless of what the conditions may prove to be, we might as well give up all pretense that accounting has any rules or standards. If doctoring accounts this year

is justified because by this means a pleasant picture can be assured for next year, let's forget about principles and admit that accounting is whatever the person ingenious with figures can make of it.

It is of course true that by writing inventory down drastically at the close of the particular period (as by writing plant costs off prematurely) the apparent expenses of the following period can be sharply reduced, but even so there is no assurance that a desired margin will appear. The revenues of the future are not expanded by the simple expedient of "fudging" costs. To attempt to establish a particular margin of profit for the coming year by such tinkering would be pure guesswork in most cases. The resulting profit (if any) might very well be more or less than the forecasted amount.

For the conscientious public accountant the following query is posed: If for the sake of protecting the showing of future profits it is good accounting to understate inventories and other forms of accumulated and deferred costs, why isn't it good accounting to understate the expenses of the following period more directly by capitalizing maintenance, forgetting to amortize insurance premiums, and other similar practices?

In the deliberations of the committee on accounting procedure relative to inventory there has been frequent reference to "normal profit" and the importance of the maintenance of such a level of profit. Just what may reasonably be meant by "normal" in the last few years is a puzzle, but ignoring this complication I submit that the maintenance of profit in the future is a managerial problem and not a direct fuction of accounting. The accountant should facilitate good management through the presentation of statistics which reflect the conditions of the particular business so clearly and discriminatingly as to promote comprehension of such conditions—induce a pattern of thought in management that will be definitely helpful. But the accountant has no direct control over the volume of revenue—the basic source of cost recovery and income increment—and his influence on the amount of expenses is confined to periodic assignment. Moreover, is there good evidence available to show that by brightening the picture (not the actuality) of the future at the expense of the past the accountant can develop managerial thinking and opinion which will result in more successful operation and financial administration? I believe not.

There are two somewhat similar cases about which there is no disagreement in which a portion (or all) of the accumulated cost of particular units of tangible goods may be absorbed prior to the disposition of the physical objects themselves. In the first place there is the case where the goods in question have made some economic contribution to the volume of revenues currently recognized. Merchandise on display or out on trial, for example, may be rendered less salable as a result of handling and hence require write-down to final disposition. The amount of cost absorbed in such a case nevertheless may be construed as a proper element of the cost of the sales to which the use of displays, free trials, etc., have contributed. Similarly where a merchant carries a larger stock of seasonal goods than can presumably be sold during the season, in order to make his stock attractive and give his customers an opportunity to make a selection, a substantial portion of the cost of the unsold units which are carried over to the next season or disposed of at special prices may reasonably be absorbed as a part

of the cost of regular sales. Occasionally particular units of materials or other goods are used to render some special technical service related to revenues in one period followed by final disposition in the next. In such a situation a reasonable part of the cost is clearly assignable to the revenues of the first period.

Without much doubt a considerable part of the inventory write-offs which are usually viewed as losses might fairly be interpreted as a particular type of operating cost.

In the second place there is the related case where there is convincing evidence in either the physical condition or economic status of the goods that cost absorption has taken place prior to final sale or other utilization, although there may be no clear basis for treating the amount absorbed as a regular cost of revenues realized. Where goods are found to be deteriorated or otherwise physically impaired (in excess of the amount of deterioration or other impairment which may be viewed as a normal feature of operation) a partial absorption of cost is required, the only question having to do with the extent of the write-down. Likewise where goods have become obsolete, or for other reason have lost the marketability which they originally had, a portion of the cost should be written off during the period in which the inferior status was brought about or recognized.

In all such circumstances the case for absorbing a part of the cost prior to disposition is based on objective evidence of impairment, and there can be no question as to the propriety of an appropriate write-off. If the impairment is at all serious, the general rule is that the amount of cost to be retained shall not exceed the estimated net amount realizable, in cash or equivalent, in the event of immediate disposition. In many cases the amount of cost deferred is preferably set somewhat under this ceiling. Where the status of the units in question is very dubious. a complete write-off of cost incurred, or absorption of all but a nominal amount, is called for.

So much for the cases about which there is no serious ground for disagreement.

We now come to the crucial question: Should there be any absorption of the cost of standard goods, in unimpaired condition, and held through a reasonable period, prior to sale or other utilization, because of a decline in the prices of similar goods, or of component cost factors, observed on either the buying or selling markets facing the particular organization? The tendency in the past has been to answer this question in the affirmative, particularly by reference to the conventional "cost or market" rule. But there has been an amazing lack of analysis of the problem, no agreement as to how the amount of cost absorption should be measured, much confusion as to the meaning of the term "market," particularly in the manufacturing field, and the widest kind of variation in method and procedure. Without doubt many crude and unwarranted adjustments of inventory in the past have been made under the cloak of adherence to the so-called "conservative" rule.

To answer effectively the question posed it is necessary to do more than call upon "cost of market"; a careful analysis must be made of the relation of costs and selling prices, with close attention to the peculiarities

of particular fields. Here I will attempt only to suggest the principal directions such analysis should take and offer a tentative general conclusion.

In the first place it is helpful, in dealing with this question as with other highly debatable matters, to refer to the concept of materiality. Can we not agree that it is unnecessary and inexpedient to undertake burdensome revisions of recorded cost figures when the change in the price situation is nothing more than a minor fluctuation? In other words, in view of the host of difficulties involved in the task of compiling dependable inventories at the best, to say nothing of the other serious complications in the process of measuring profits, is it necessary to insist that a movement of prices, with a final influence not yet determinate, must be painstakingly taken into consideration in determining the inventory when the amount by which the recorded cost figures will be revised is not more than, say, 5 to 10 per cent.? If this suggestion is accepted the scope and importance of the question is greatly restricted at the outset. It is safe to say that for most businesses most of the time the change in either the buying prices of cost factors or the selling price of product during the period in which the current inventory was acquired or accumulated is not a major factor in income measurement. This is especially true where the turnover rate is high and inventory cost is determined by the first-in, first-out procedure.

Let us now take a look at the relatively rare cases in which there is a very substantial movement in prices during the period in which the existing inventory was acquired. First, assume that selling prices of product have fallen, while buying prices (current replacement cosst of inventory elements) are unchanged. In this situation should a part of the cost of the inventory be absorbed in the period just ending? If the current level of selling prices is still high enough to cover all costs as already recorded, plus any additional costs that will be incurred in disposing of the present inventory, a write-down is hardly justified. As stated earlier, it is not the function of the accountant to play favorites with particular periods, to burden the current period solely for the sake of improving the appearance of the next. Under the condition stated no actual loss has been suffered, even in unrealized form. The costs incurred are presumably recoverable, and hence there is no valid basis for premature absorption.

But suppose the drop in selling prices is so severe that the accumulated costs of the inventory, plus estimated costs yet to be incurred, are not covered by the immediate level of such prices; what then? In this situation there is some excuse for holding that a loss has already accrued even though not as yet realized—a loss measured not by the amount of the decline in selling prices but by the amount of cost incurred which is not covered by current prices. There is still a question, however, as to the desirability of actually writing off a portion of the cost of standard inventory elements on hand as a definite loss. No one knows what will happen to prices before the inventory is disposed of; actually the expected loss may never materialize. Moreover, with a sharp and substantial fall in selling prices a recession in cost prices can be expected shortly, and in this event those costs which must be incurred to complete the process of putting the inventory on the market may well be much below the current level. This point is particularly important with respect to raw materials and work in process. In other words, the estimated loss has little validity except as applied to that portion of

the inventory which is in the form of finished goods and will presumably be sold at prices approximating current quotations.

Suppose that replacement costs (current acquisition prices of all components of the inventory) have fallen substantially during the period of inventory accumulation but that selling prices of products have not been affected. In this situation it is clear that no loss has as yet accrued and that any write-down of inventory must be based on pure assumption. True, a sharp and sustained fall in costs will presumably be followed by a decline in selling prices, but there are many in which selling prices are more "sticky" than cost prices and in which a considerable fluctuation in costs may occur without being reflected in product prices. The immediate situation is a widening profit margin, and this certainly affords no excuse for premature cost absorption. To insist on applying "cost or market" to such situations is nothing more than blind allegiance to a rule.

Finally, assume that replacement costs have fallen substantially during the period of inventory acquisition and that there has been an accompanying substantial decline in selling prices. Should costs attaching to tangible goods be absorbed prior to the disposition of such goods in this situation? If the fall in selling prices is less than the profit margin computed on the basis of the accumulated costs of the inventory to date plus the estimated additional costs to be incurred at the new level of buying prices, no loss has actually accrued with respect to the inventory considered as a whole, although an accrued loss might emerge if finished goods were considered separately. If the change in the two price areas has been such that current selling prices do not cover accumulated costs plus estimated costs to be incurred in completing and disposing of the inventory, there is reason for saying that an unrealized loss has accrued. Again it should be pointed out, however, that the future is generally uncertain and it is unlikely that the realized loss which finally emerges (if any) will correspond to the estimated unrealized loss previously accrued.

It should be added that where a business has been operating at a loss for some time, there is little basis for a systematic computation of an estimated unrealized loss attaching to existing inventory due to changing prices during the period of inventory accumulation.

The tentative conclusion which I reach is that only in rather unusual circumstances can a strong case be made for absorption of a part of the cost of standard materials and other inventory elements, held in unimpaired physical condition, and with the expectation of use and disposition in the course of regular operation, prior to the disposition of the physical elements to which the costs incurred attach. Moreover, for such goods the burden of proof should be placed on the person who advocates write-down, and the proof required should be something more substantial than the bare fact that some or all of the associated prices have been moving downward during the period of inventory accumulation.

The suggestion that accountants adopt a more critical attitude toward the premature absorption of inventoriable costs is not intended to imply that price movements in business enterprise are unimportant to management and investors. They are, of course, of vital importance, and information regarding such changes should be continuously available. However, slashing inventory to the bone is a far cry from an intelligent scrutiny of

price changes, and the use of this supposed corrective has been greatly overworked. On the whole, accounting practice would be tremendously improved if "cost or market" as such were thrown in the discard and attention were centered on perfecting our methods of accumulating and assigning costs. Premature absorption of costs should be restricted to those cases in which the amount of loss is substantial, and is validated by dependable, objective evidence. In reporting inventories in financial statements the emphasis generally should be on recorded cost, and estimates of realizable market value—whether less than or more than cost—should be shown as supplementary data.

The Chief Financial Officer and Business Management

By H. G. NORMAN, C.A.

Past President, The Institute of Chartered Accountants in Quebec, Before Montreal Chapter, October 30, 1941

It is with some diffidence that I speak to the subject "The Chief Financial Officer and Business Management" as it not only covers a very wide field but also so much has been written and spoken on the subject matter that it is left to me to express only my own personal views thereon.

Financial Organization.

The words "Chief Financial Officer" apparently contemplated that there is only one such person in an organization of a large corporation whereas there would normally be at least two, namely, the Treasurer and Comptroller, both of whom are Financial Officers and both individually responsible to the President and Board of Directors but neither responsible to the other but complementary to one another.

There is also in many large Corporations a third Financial Officer, the Internal Auditor, whose duties differ entirely from those of the other two mentioned officers and who in some cases is directly responsible to the President of the Corporation and in others to the Comptroller. It would appear preferable for the Auditor to be responsible to the President or Board of Directors as he acts as "policeman" and checks the work of all insofar as their activities pertain to finance and accounts.

The problem of line of responsibility is considerably more confused in practice than is the segregation of their duties. For the maintenance of proper internal control the segregation of duties in itself is not enough, the line of responsibility must also be clearly defined. There are of course many possibilities depending upon the size of the organization and to some extent the nature of the business but the following chart indicates in solid lines the preferable line of responsibility:—

BOARD OF DIRECTORS

President	Finance Officer (Vice-President)	Finance Committee
Treasurer	Comptroller	Auditor
Receipts and Disbursements	Accounting Records and interpretations	Auditing of all Financial Records

CHIEF FINANCIAL OFFICER AND BUSINESS MANAGEMENT

In the original assignment of my subject it referred to the relationship of the Treasurer, Comptroller, Chief Accountant or other chief financial officer to management. In the case of corporations having a comptroller it is usual for the chief accountant to be directly responsible to him but in the case of corporations not having a comptroller so nominated then the Chief Accountant should carry out the duties normally assigned to the Comptroller and should report to the President or Board of Directors. In any event wherever possible the Comptroller or the Chief Accountant and the Internal Auditor should not report to the Treasurer in order that internal check in its broadest sense may be exercised.

The Relationship of the Chief Financial Officers to One Another.

The relationship of the three financial officers must at all times be close as their functions are complementary and information furnished by the one to the other necessary in order that the greatest value of all may be obtained; such an interchange of information does not nullify the internal check since all reports finally go direct to the party to whom each is responsible. It may be said that the Financial Budgets are the responsibility of the Treasurer but he must to a great extent rely on information prepared by the Comptroller as to forecasts of sales and costs, which to some extent may be based upon financial data as to anticipated rises or falls in customers demands, rising cost of commodities, labor rates, living costs, etc. Further, the Treasurer in checking against his Financial Budget must receive data from the Comptroller as to accounts receivable, collected and outstanding, accounts payable, paid and outstanding and progress made on capital expenditures budgeted for and not budgeted for. The Internal Auditor must of course have access at all times to all the records of both the Treasurer and Comptroller.

The Functions of the Treasurer.

There is general agreement that "cashiering" is the function of the Treasurer, therefore the receipt and disbursement of all monies are his functions as well as the creation of the original entries covering these activities with control of general ledger accounts, which are maintained under the supervision of the Comptroller.

The Treasurer is called upon to have funds on hand as needed for all corporate purposes and is therefore vitally concerned with the budget and relations with banks and other sources of borrowed funds. He should prepare a cash budget and cash forecast in collaboration with the other budget officers, such a forecast should not only be for current needs but also for a long term program, which necessitates studies of trends of prices of commodities, living costs, labor costs, cycles of trade generally and his own business in particular, tax trends, both Dominion, Provincial and Civic, probable capital expenditures, renewals and replacements, provision of funds through depreciation, dividend policy of the company and all other factors which would affect the income and outgo of funds.

He should have the power to arrange short term loans up to a limit set by the Finance Committee, similarly the investment of surplus funds, sinking funds, depreciation funds as available may be made by the Treasurer under the direction of the Finance or Executive Committee.

The credit manager is uusally responsible to the Treasurer in deter-

mining credit policies notwithstanding that such policies may have substantial effects on sales as well as the use of invested capital.

The Treasurer is the custodian of cash and often of the following, although these may be held by an alternate as noted hereunder:—

	Alternate or Custodian
Bonds and Certificates	Secretary, bank for safekeeping
Notes and negotiable instruments	
Contracts	Secretary, Purchasing Dept. Sales Dept.
Leases and Real Estate Deeds	Secretary
Insurance Policies	Secretary or Insurance Dept.
Tax Reports and Returns	Secretary, Comptroller, Tax Dept.
Copyrights, Trademarks, Patents	Secretary

Certain of those mentioned are kept in safe-deposit boxes, access to which should be had by not less than two officers, one of whom should be the Treasurer. The remainder are usually kept in the office and may be in the custody of the alternates or simply in the filing department.

The Treasurer may be held responsible for bonding employees, managing non-operating properties, satisfying himself that adequate insurance is carried, recommendations to the Financial Committee with respect to financial policies as well as furnishing that committee with reports of the financial position in relation to the financial budgets previously submitted, giving reasons for any major differences after consultation with other officers of the company, which such differences concern.

As purely administrative function the Treasurer is usually invested with the following powers and is also the signer on bonds and stock certificates—

Endorse negotiable instruments
Sign cheques
Deposit cash receipts
Operate Petty Cash Funds
Transfer funds between banks

It is of course understood that the Treasurer is responsible for the operation of his own department and that he may or may not carry out all of his own personal duties.

Functions of the Comptroller—

The present position of comptrollership functions may, I think, be traced to the official in Government posts known as a "Comptroller" who is called upon to perform special duties as defined by law, all of which have as their main purpose to see that only those funds appropriated are disbursed and that they are disbursed for the purpose set forth in the appropriation.

This Government function came into business when the business unit grew not only in size but in its geographical location so that it became necessary to charge one individual with the responsibility of seeing that the appropriation of funds by the Directors and Officers was followed.

The complexities of modern business, particularly their growth of the last twenty years in relation to taxation, governmental control, competitive situations, national distribution, modernized factory practices, etc., have brought about a condition in which it is not advantageous but

necessary to set up controls so that exact and workable records may be maintained in such a manner that detail as well as general information may be available at all times. This has brought about a widening of the functions of the comptrollers from that envisaged in Governmental practice and in many cases of the individual, who though not so named yet carries out the duties of a comptroller.

In addition to the common functions of a comptroller he has many special duties, which vary so much from industry to industry that they may perhaps be expressed by stating that whenever there is a difficult problem to be solved the comptroller shall have built up such a degree of confidence that he is included automatically in the group called upon to solve the problem.

The supervision of all accounting matters and the necessity of assuring himself that the policies of the corporation, as set forth by the Board of Directors and Finance Committee, are being implemented call for him to inquire into every activity of the corporation manufacturing, selling, etc., because these all involve the receipt and use of funds. The acocunting should soon resolve itself into routine work, with exception of special points arising from time to time, thus leaving the Comptroller time to devote his attention to making the accounts of use for administrative purposes. In effect the Comptroller should not become a recorder of historical information only but must have a good knowledge of selling, advertising, production, taxation and other laws particularly affecting the industry in which he is engaged and should use such knowledge to aid and advise the management in formulating policies of all kinds.

Functions of a Comptroller common to all business may be said to maintain adequate records of all transactions of the corporation and of the resultant assets and liabilities, to initiate and enforce, in conjunction with other officers of the corporation, such measures and procedures whereby the business is conducted with the maximum of safety, efficiency, economy, such duties to extend to subsidiary companies if such are in existence.

A brief resume of the duties of a Comptroller may be stated as follows:—

Installation and supervision of all accounting records.

Preparation and rendering all bills and maintenance of accounts receivable ledger.

Computation of production costs and costs of distribution.

Preparation of statistical records.

The taking and costing of all inventories.

Preparation and filing of all tax returns.

Budget preparation in conjunction with other officers.

Initiation, preparation and issuance of standard practices relating to accounting matters and procedures, outstanding clerical and office methods, records and reports.

Ascertainment that financial policies and transactions covered by Minutes of the Board of Directors are executed and properly recorded.

Read all contracts entered into so as to institute necessary accounting procedure to see that all payments to be received or paid out are made.

Preparation of annual statement for submission to the Board of Directors.

From the above it may be seen that through the duties performed by the Comptroller he becomes conversant with every phase of the organization with the result that he is one of the officers who should automatically become an integral part of the management and a very essential cog in determining policies of the business. As a result of the statistics produced by him on costs he can act as an advisor to the production manager and if his advice is not taken after careful consideration, and no improvement arises in the costs of production it is his duty to bring his suggestions forward to the senior officers for their consideration.

It is essential also for the Comptroller to interpret the many statements which are prepared for presentation to the management. Statements of all characters to-day are so voluminous that it is practically impossible for the officers of the business to examine them all in detail, so that it becomes necessary for the Comptroller to present the salient facts in the form of a few brief pithy statements as to results and facts relative thereto from which the management may form their opinions and enquire for further details if they so wish. It is also essential that the Comptroller should produce for the junior executives statistical information which will help them in deciding day to day problems and in this way make a real contribution to operating effectiveness.

Relationship of Comptroller to Chartered Accountants—

The audit of the accounts of a corporation involve not only a check on the propriety and authority of all expenditures and the correctness of receipts but equally as important a review of the accounting principles used in determining the basis on which the accounts are prepared as to items capitalized, items deferred to future operations, basis for depreciation and amortization, etc., and in general the classification of the accounts, also a review to determine that the principles used are consistent with those of prior years. It therefore becomes necessary for the Chartered Accountant to have a very close relationship with the Comptroller who is in the main responsible for the policies which govern all phases of the accounts as well as for the correct presentation thereof and who should be familiar with all data in regard thereto.

The Comprotller being responsible for the accounts of a company is therefore the logical contact through which the Chartered Accountant raises all questions as to principle or practice and through whom contacts should be made with the various members of his staff as well as the heads of the operating and sales divisions of a business.

It should be realized that the accounts of a corporation as presented to its shareholders are the responsibility of the officers of the corporation and that the auditor's certificate indicates to the shareholders that he is or is not in accord with the presentation made by such officers. It therefore becomes essential that any proposed major changes in accounting policies as well as points of principle involved in the treatment of particular items should be discussed fully between the Comptroller and the Chartered Accountant so that they may be in accord before changes or decisions are made by the officers of the corporation and avoid last minute discussions

of important matters under pressure of necessity of having the annual statements signed by a given date.

At the time of the installation of the system of accounts either the general accounts or cost accounts, of any business there should be close collaboration between the Comptroller and Chartered Accountant so that the former may have the benefit of the experience of the latter and that the latter may have full knowledge of the reasons upon which the form of the accounts is based and thus enable him to arrange his audit with full knowledge thereof.

The question of taxation having become so important to all business and this subject being one on which all Chartered Accountants should keep themselves fully informed it would appear sound business practice for the Comptroller to discuss with the Chartered Accountant any proposed changes, either in the financial structure or otherwise, which may have a bearing on taxation, so that he may take advantage of the latter's experience in dealing with tax matters for many and varied clients, as well as such knowledge as he may have of the tax gatherers' attitude to various problems he has had occasion to discuss with them.

It is needless for me to state that reports to be made by business to-day to various Governmental bodies such as taxing authorities, Labour Bureaus, Foreign Exchange Control Board and many others are bringing about a condition for the keeping of accurate records which will enable all of the returns called for to be made without undue disturbance of business routine. The present war condition is bringing about and will bring a demand for more returns to be made to Governmental bodies from time to time, all of which must be filed as promptly as possible in order that business may thus permit of the Government deciding on policy and executive action from day to day.

The Comptroller naturally therefore finds himself as keyman for the purpose of the preparation of all of these forms and as such it is necessary for him to keep in constant touch, not only with the various Bills passed by Governmental authorities but also with the regulations issued by such authorities, as well as a personal contact with those charged with the administration thereof.

It appeals to me that there is no person more qualified to have connection with and discuss the affairs of business with the various Governmental bodies that the Comptroller and he can also be of considerable assistance to the Government in suggesting to the various Governmental bodies amendments to existing laws as well as suggestions for future laws which would not have, of necessity, direct financial benefits to the business which he represents but which would be of benefit to the country as a whole and make the various laws and regulations more understandable and workable than some of them may presently be considered.

Internal Auditor—

As already indicated the Internal Auditor's functions are to act as a "policeman" on all of the officers and employees of a business who may have any contact with financial transactions and/or the physical handling of inventories. His duties are to see that all of the transactions of a company are carried out in accordance with the financial policies laid down as well as to see that all disbursements are properly authorized and vouchered

and that all receipts to which the company is entitled are received and properly recorded in its accounts.

The reports of the Internal Auditor should be directed to either the Financial Vice-president or Finance Committee and copies thereof should be furnished to the Comptroller so that the latter may be in a position to remedy any defects in the accounting system which may be brought to light as a result of the Internal Auditor's work. It is also essential that copies of these reports should be made available to the Chartered Accountant, outside auditor, so that the latter may be apprised of the extent of the work which has been carried out by the former and may so arrange his programme to avoid any degree of overlapping, but at the same time to carry out sufficient tests to see that the work of the Internal Auditor is properly carried out.

In closing I would like to emphasize what I said that the work of the members of your Institute and the work of Chartered Accountants are and should be considered as complementary and not as overlapping since to a considerable extent your activities are not only concerned with costs and management but also factory practice whereas our functions are essentially confined to auditing, accounting, taxation practice and financial advice and it is therefore essential that as great a spirit of co-operation as possible should exist between your organization and our own so that the greatest benefit may accrue to all of our clients as well as to the governmental bodies in which we may be called upon to serve, particularly during this time of war, when the duty of all is to help in the prosecution of the war effort to his utmost ability.

A Practical Time Saving Plan of Accounting for Fixed Assets and Depreciation

By C. J. ENGLAND, R.I.A.

Before Windsor Chapter, October 30th, 1941

Industry, generally speaking, has found it essential to maintain definite records pertaining to Fixed Assets in order to have, instantly available, data on the original cost or replacement value if appraised, date of purchase or appraisal, length of service, and present depreciated value of all equipment.

This development is not surprising when Fixed Assets represent huge investments, the depreciated value of which at times may run as high as 60% of the total assets. Dependable figures on book values are also of prime importance in the settlement of fire loss claims, in negotiating for the purchase of new equipment involving trade-in of the old, and in determining the proper rates of depreciation to prevent capital losses on disposal.

These several conditions necessitate an individual record of the various pieces of equipment, either in card or ledger form. In any large industry these individual records assume considerable volume and the question arises, "How can the detail be cut to the bone without loss of essential information?"

The following plan has been in use for a number of years and has been

found to provide the required data with a minimum of time expenditure. In appraising the plan cognizance should be taken of the following facts:

1.	Cost or Replacement Value of Fixed Assets, approximately	$6,000,000
2.	Reserve for Depreciation, approximately	$2,700,000
3.	Annual Depreciation Expense, approximately	$ 250,000
4.	Annual Capital Losses on disposal, building excepted	$ 5,000
5.	Number of operating plants	24
6.	Number of employees engaged in maintaining equipment records—1 part time.	
7.	Number of General Ledger Accounts (including separate accounts for Res. for Dep. as appraised)	24
8.	All records are maintained at Head Office.	
9.	Approximate number of equipment cards	10,000

Fixed Asset Cards

Equipment as purchased is recorded on 4x6 cards, the following details being shown:

Location (location of plant).
From (Vendor)
Description.
Date capitalized and reference.
Cost—installation recorded separately on card.

The original purchase voucher is required at Head Office for Audit purposes. Therefore, purchase invoices, in duplicate, are first forwarded to the branch and one copy is returned with journal voucher, properly certified as to receipt. The certificate also includes description of asset traded, or statement that the purchase is additional or original purchase.

A duplicate of the Head Office Equipment Card is forwarded the branch for local information and to supply the necessary information for advising Head Office upon disposal. No Depreciation Reserve is recorded on Branch Cards.

Depreciation

In considering the question of depreciation, the following points have been taken into account:

1—The life expectancy of any piece of equipment is but an estimate.

2—The residual value is never certain, being dependent upon the current market for old equipment which in turn is influenced by technical developments over the past five or ten years, and also the unpredictable market for scrap metal.

3—In order not to use a general or averaged rate in all classes of equipment of a general classification such as Machinery and Equipment, thus either under-providing or over-providing depreciation on individual items, an attempt must be made to break down these classifications into "life expectancy" groups, or the plan must provide for individual treatment of the assets. This plan follows the latter idea.

4—On account of the unknown factors as recorded in items 1 and 2 above, the plan used provides for application of depreciation to the equipment cards and in even dollar figures, the nearest even dollar to the required depreciation based on life expectancy in terms of a percentage rate. For

example, an item costing $1,198 and being depreciated at a 10% rate would have $120 applied as depreciation. By keeping the write-off in even amounts considerable time is saved in balancing the cards and running tapes.

4—The fact that depreciation expense is not allocated directly to costs, but is absorbed as general overhead. However. the plan may be adapted to the policy of assessing depreciation to costs by using subsidiary records.

The plan calls for the yearly depreciation write-off and the accumulated depreciation to be shown on the individual cards. To reduce the work to a minimum the amount of the current year's depreciation is recorded as one amount based on the live cards as at the end of the prior year. The total of the depreciation as recorded on all the cards for each classification (building, machinery and equipment, etc.) for each plant is secured by taping the cards. These figures when recapped show the total depreciation expense for each branch and the total for each classification. No deprecsation is taken on purchases within the current year. The grand total for the year is then written off in one entry each month on a predetermined basis, being credited to a special Reserve Account which is broken out over the proper classification of depreciation reserve accounts at the end of the year.

When equipment is written out the depreciation reserve as recorded on the card as at the end of the current year is used, as this is the figure which has been provided for in the summary explanation above. It will be observed that no difficulty is encountered in making deletion entries, the exact amount of the Reserve for Depreciation applicable to the assets being known. Where the Reserve must be calculated by reason of no detailed record of depreciation being in existence, much time is often consumed in the process, the time depending upon whether or not any change has occurred in the rates or classification during the life of the equipment.

Note: In adapting this system to the inclusion of depreciation in costs, a subsidiary record would be required to delete the depreciation expense relative to the equipment disposed of which has been provided for in the schedule but not absorbed, and to include depreciation for the remainder of the year on the new equipment purchased.

General Ledger

Previous mention has been made of the small number of General Ledger Accounts involved, yet a complete set-up to show the gross (cost) values and Reserve for Depreciation of all Fixed Assets by plants and classifications would require some 600 accounts. The number of accounts is reduced to 24 by the use of printed sheets which have columns for:—

- Date of Entry.
- Reference.
- Details of Equipment Purchased or Deleted (difficult to show in ledgers posted mechanically).
- Replacement Value or Cost.
- Reserve for Depreciation as appraised.
- Reserve for Depreciation (since appraisal).
- Depreciated Book Value (applicable on delections).
- Disposal Price.

Loss or Profit.

Account number charged with Loss or Profit.

On these sheets which are set up anew each year, the first entry is the balance forward from the prior year; then the depreciation for the current year according to the schedule, and then the purchases and deletions as they occur during the year. The sheets are filed in a binder by classification of accounts, Land, Buildings, etc., each classification being filed in alphabetical order by plants. When current monthly totals are brought down the addition of the totals pertaining to each classification agree with the General Ledger controls, and provide the necessary break-up of the General Ledger figures to permit balancing of the cards in detail.

Further specific details may be obtained from:

C. J. England, R.I.A.,
Chief Accountant and Internal Auditor,
Silverwood Dairies, Limited, London, Ontario.

Presentation of Degree Certificates

Text of a Speech by Harold P. Wright, R.I.A., President of the Society of Industrial and Cost Accountants, at Joint Meeting of Toronto and Hamilton Chapters, Toronto, November 12.

Mr. Chairman, Honoured Guests and Fellow Members:

As most of you know there has been built up within the framework of our Society a new organization, known as the Society of Industrial and Cost Accountants of Ontario, which obtained a private bill in the Ontario Legislature with power, among other things, to grant the degree of R.I.A. and use of the designation, "Registered Industrial and Cost Accountant". I am sure that it was a source of pleasure to you, as it was to me, that these powers were secured, especially after the years of effort on our part to obtain such powers, and now that we have these powers, we must make the best possible use of them.

In some Societies, degrees are automatically conferred on charter members, but this practice has not been followed in our case. For a period of eleven years, our Society has conducted examinations in Bookkeeping, Accounting, Cost Accounting, and Business Organization and Management, and many of our members have passed our examinations. It is my pleasure to-night, as President of the Society of Industrial and Cost Accountants of Ontario, to present degree certificates to a number of members present. Unfortunately, I cannot present all the certificates because of a delay in the final preparation of them, but we have a number of them here with us to-night, and the balance will follow by mail, or they will be presented at your next meeting.

Before presenting these certificates, I feel it my duty to draw to your attention a matter of particular importance. I refer to the Student members. For a long time, our Society was content to give them a membership at a reduced fee, and we did not particularly concern ourselves thereafter.

A little over a year ago our Secretary Manager organized Student Sections in various Chapters, and since that time, this has been followed by

similar organizations in all Chapters. These Student Sections are open to those studying a bona fide course, and our Student Membership is rapidly growing. You, here in Toronto, are taking hold of the Student Section in fine style, and you are to be congratulated, but are we doing enough? We all know that complete organization takes time, and my personal feeling is that our Secretary has the right idea, and should be heartily congratulated on his work in this connection, but he needs help to augment his own efforts. Your Ontario Society has formed a strong educational committee under the Chairmanship of Mr. A. G. Howey, R.I.A., and I feel that the Chairman and members of that committee are ever mindful of the urgency of doing all we can to promote the interest of our Student Sections and their work. We need all the Student members we can get, but we should make sure that we give them all the assistance we possibly can, so that year by year more of these certificates will be presented to young men, who by study and hard work, have passed the examinations of our Society, and have earned the right to the use of our degree.

I now wish to present the first certificate to Mr. George Appleton who, as all of you know, is Dominion President of the Canadian Society of Cost Accountants and Industrial Engineers, Vice-President of our Ontario Organization, and a past Chairman of your Toronto Chapter. Mr. Appleton has been an extremely hard worker in the Society for a long period of time, and it is with rare pleasure that I present to him this certificate, and confer upon him the degree of R.I.A.

SITUATIONS WANTED

Young lady, B.A. degree, Commercial training and experience. Experienced in bookkeeping, stenography and general office work, desires position in Cost or Accounting department of substantial company in either Ottawa, Toronto or Hamilton. Knowledge of comptometer work. Reasonable salary only required if position has possibilities. Apply Box 70, "Cost and Management".

Young man, married, with good background in Accounting experience, now studying Cost Accounting, desires position with sound firm, preferably in Hamilton district. Moderate salary to commence if prospects are good. Apply Box 71, "Cost and Management".

Niagara Students' Section Election of Officers

AT THE NEXT MEETING OF THE NIAGARA CHAPTER STUDENT SECTION, TO BE HELD ON WEDNESDAY, DECEMBER 3rd, AT 7.30 P.M., IN THE OFFICES OF THE ATLAS STEELS LTD., WELLAND, OFFICERS FOR THE PRESENT SEASON WILL BE ELECTED.

COST STUDIES PUBLISHED BY THE SOCIETY

(Copies available at 50 cents each).

Administration and Selling Costs, Distribution of. A. E. Keen	Apr., 1929
Aircraft Costing, Problems of	Dec., 1940
Automobile Assembly Costs and the Financing of Sales. A. C. McAlpine	Sept., 1932
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Budgetary Control	July, 1934
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Cost Accounting	June, July, Aug., 1941
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